



Department of Justice

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JUSTICE DEPARTMENT MOVES TO END
EXCLUSIVE AGREEMENT BETWEEN IBM AND STORAGETEK
IN MAINFRAME COMPUTER DISK STORAGE SUBSYSTEM PRODUCTS

Agreement Had Ended Competition Between IBM and StorageTek

WASHINGTON, D.C. -- International Business Machines Corporation and Storage Technology Corporation will modify a 1996 marketing agreement that established IBM as the exclusive distributor for StorageTek's mainframe disk storage products, under a settlement reached today with the Justice Department.

The 1996 agreement ended competition between the two companies in the multi-billion dollar market for mainframe computer disk storage subsystems, which store and provide ultra fast access to data.

The Department's Antitrust Division today filed a lawsuit, together with a proposed settlement, in U.S. District Court in Washington, D.C. The settlement, if approved by the court, will resolve the Department's allegations.

In its lawsuit, the Justice Department alleged that before the 1996 agreement went into effect, competition between IBM and StorageTek had greatly benefitted mainframe disk storage purchasers. Price declines in the industry eased after StorageTek and IBM stopped competing against each other.

"High-technology products like these work behind the scenes to help major institutions, both governmental and corporate, operate more efficiently," said Joel I. Klein, Assistant Attorney General in charge of the Justice Department's Antitrust Division. "Vigorous competition is what drives the significant technical improvements and price reductions that we have seen in these products in recent years, and we won't tolerate private arrangements that slow such advances. As a result of this case, StorageTek will once again be able to compete vigorously in the mainframe disk storage system market."

In its lawsuit, the Department specifically objected to terms of the 1996 agreement that imposed substantial financial penalties on StorageTek if it sold its mainframe disk storage systems to anyone other than IBM. The agreement also imposed financial penalties on IBM if it did not buy enough disk storage subsystem products from StorageTek. These and other anticompetitive terms effectively eliminated StorageTek as an independent competitor in the mainframe disk storage system market.

IBM and StorageTek had been two of only four major independent competitors worldwide in the development, production, and marketing of mainframe disk storage subsystems.

Under the proposed settlement, IBM and StorageTek will be prohibited from maintaining contract provisions that would financially penalize StorageTek for marketing mainframe disk

storage subsystems to customers other than IBM. The proposed settlement would also ban provisions that would otherwise prevent competition between IBM and StorageTek in the marketing of mainframe disk storage subsystems.

In addition to providing positive incentives for StorageTek to re-establish its competitive independence, the proposed settlement limits after 1998, the amount of mainframe disk storage subsystems that StorageTek may sell through IBM, until StorageTek has begun making substantial sales to customers other than IBM.

IBM, headquartered in Armonk, New York, is the world's largest computer manufacturer; it had worldwide revenues of about \$75 billion in 1996.

StorageTek, based in Louisville, Colorado, is a major producer of disk and tape storage systems for mainframe computers, and had total worldwide revenues of about \$2 billion in 1996. In 1995, the last full year in which they were mainframe disk storage subsystem competitors, IBM and StorageTek had total mainframe disk storage subsystem sales of about \$2 billion and \$300 million, respectively.

As required by the Tunney Act, terms of the proposed settlement will be published in the Federal Register, together with the Department's competitive impact statement. Any person may submit written comments concerning the proposed settlement during a 60-day comment period to John F. Greaney, Chief,

Computers & Finance Section, United States Department of Justice, Antitrust Division, 600 E Street, N.W., Suite 9500, Washington, D.C., 20530 (202/307-6200). At the conclusion of the 60-day comment period, the Court may approve the settlement upon finding that it serves the public interest.

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